

**SACRAMENTO MUNICIPAL UTILITY DISTRICT**  
Interoffice Memorandum

**TO: Deferred Compensation Participants** **DATE: May 20, 2021**

**FROM: Deferred Compensation Committee**

**SUBJECT: MINUTES FROM 2<sup>nd</sup> QUARTER DEFERRED COMPENSATION COMMITTEE MEETING OF May 20, 2021.**

**Committee Members Present: Russell Mills, Laurie Rodriguez, Lisa Limcaco, Jennifer Davidson, and Steve Lins**

**Support Staff Present: Stan Ichiho, Greg Pochy and Randy Hakes**

- **Meeting Minutes of March 4, 2021** - Approved electronically by the Committee prior to the meeting. The approval of the minutes was confirmed.
- **Quarterly Fund Review** – Greg Coffey, Russell Investments presented the quarterly update with the following information:

**Plan Highlights:**

- At quarter end, 58.4% of assets were in a Tier I fund solution (target retirement date fund).
- 35.2% of assets were in Tier II (actively managed funds) & Tier III (passive index funds) fund option at quarter end.
- The Tier IV (brokerage window) represented 6.4% of assets.
- During the quarter, there was limited participant movement between investment fund options, with the percentage of assets across the various tiers stable.
- All actively managed investment fund options have investment fund expenses that are significantly below a universe of similar style funds.
- Asset balances have grown considerably following the COVID-19 equity market downturn from 12 months ago.

**Market Summary:**

- The 1st quarter was positive for equities as investor sentiment continued to improve due to the increase in vaccination rates and the continued reopening of the global economy.
- U.S. equities experienced gains of 6.4% during the quarter as measured by the Russell 3000 Index. Value stocks outperformed growth stocks as the energy, financials, and industrial sectors led the way.
- Like U.S. markets, international equity markets rose during the quarter by 4.2% (as measured by the MSCI World ex US Index) and modestly underperformed U.S. stocks.
- Bond markets delivered a return of -3.4% during the quarter as measured by the Bloomberg Barclays Aggregate Bond Index. While credit spreads continued to tighten, Treasury yields increased by a wide margin which resulted in negative bond performance.

**Investment Option Performance Summary:**

- Tier I Target Date Funds produced positive absolute and benchmark relative returns during the quarter. Benchmark relative returns were aided by an overweight to equities and a portfolio tilt towards value. Russell Investments is maintaining this portfolio positioning as these areas of the market are likely to be further rewarded as economic conditions improve.
- Tier II active funds' performance was strong across the quarter with four out of six funds outperforming their respective benchmarks.

- The Large Cap U.S. Equity Fund outperformed due to an overweight to value and positive stock selection within the consumer discretionary sector.
- The Small Cap Fund produced strong absolute returns and outperformed during the quarter due to its emphasis on value and quality factors. Holdings in the consumer discretionary sector also benefited from pent-up consumer demand.
- The All-International Markets Fund outperformed during the quarter as security selection within value-oriented sectors was rewarded. Exposure to financials and within the consumer discretionary sector was additive.
- The Multi-Manager Bond Fund underperformed in the quarter as a longer duration position relative to the benchmark was not rewarded due to the sharp increase in Treasury rates.
- The Investment Contract Fund performed well relative to the benchmark given the portfolio's higher yield than short-term U.S. Treasuries.
- The Real Asset Fund modestly underperformed during the quarter as an underweight to the marine port sector detracted from results.
- Tier III passive index funds all performed as expected by tracking their respective benchmarks.
- **ESG Fund Considerations** – Greg Coffey of Russell Investments presented an overview of ESG funds, Department of Labor guidance, and practical considerations. Russell Investments believes that a sound awareness of environment, social and governance, factors and a robust investment process can coexist to add value and help Plans meet their objectives. Currently the landscape of ESG funds is evolving and the committee has asked Russell to research specific funds that may fit with our investment strategy for future consideration.

**Quarterly Plan Review** – Suzanne Rogers, Fidelity Investments presented the quarterly plan statistic summary for the 401(k) and 457(b) Plans.

- **Plan Statistics**

**Total Plan Assets** as of March 31, 2021 were \$519.2 million, compared to \$498.1 million at the end of the prior quarter.

**Total Plan Participants** – As of March 31, 2021 there were 2,859 Participants in the Plans.

**Retirement Readiness** – As of March 31, 2021 86% of active participants are contributing to one or both plans.

**Equity Allocation** – As of March 31, 2021 76% of participants have an Age-Appropriate Equity Allocation of funds.

**Beneficiary Designations** – As of March 31, 2021 69% of participants have a Beneficiary Designation on file with Fidelity.

**Participant Engagement** – As of March 31, 2021 87% of active participants have contacted Fidelity by phone or logged into Netbenefits.

**Cyber Security Oversight** – Randy Hakes

Randy presented to the committee information from the Department of Labor regarding cyber security oversight. The committee requested a presentation from Fidelity and SMUD IT Security at the next quarterly committee meeting and to schedule an annual cyber security review.

**Recordkeeping Fees** – Suzanne Rogers, Fidelity Investments

Suzanne presented to the committee information regarding the reduction of recordkeeping fees as it relates to a reduction in Retirement Planner On-Site days. The committee has asked staff to

come back to them with a recommendation on options for the reduction within the differing fee tiers.

With no further items on the agenda, the meeting was adjourned.

Participants may submit comments or questions for the Deferred Compensation Committee through Stan Ichiho, of Human Resource Services at MS B251. Please include your name and daytime phone number so the Committee may respond to your request.